California expands sales tax to SaaS and digital products

Digital Health

07.10.26

On June 29, 2026, California Governor Gavin Newsom signed SB122 into law, expanding the state sales tax base to include SaaS, electronically delivered software, and certain digital products beginning in 2027. The legislation generally treats many digital products as taxable tangible personal property and adopts a customer-based sourcing methodology. For remotely accessed or electronically delivered products, sales are sourced to the purchaser's "known address" in California.

The new tax classifications will require both software providers and customers to reassess their sales and use tax compliance obligations. These changes also may increase costs for healthcare providers and other end users as software vendors seek to pass through newly imposed sales and use tax liabilities. Users may also see increased compliance costs associated with implementing the new regime and amending existing contractual arrangements.